

**UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA**

Woodstone Limited Partnership;
Lofts at Farmers Market LLC,

Case No. 22-CV-1589 NEB-JFD

Plaintiffs,

v.

City of Saint Paul, Minnesota, a Minnesota Charter City; City Council of the City of Saint Paul; Angie Wiese, in her official capacity as the Director of the Department of Safety and Inspections of the City of Saint Paul; Mayor Melvin Carter, in his official capacity as Mayor of the City of Saint Paul; and John Doe,

Defendants.

DECLARATION OF ROBERT STRACHOTA

I, Robert Strachota, declare and state as follows:

1. I am President of Shenehon Company, a nationally recognized leader in the real estate valuation industry. In my 40 years in the industry, I have appraised thousands of properties in the Twin Cities. I have personal knowledge of the facts set forth in this declaration, and I am competent to testify about them.

2. Shenehon Company has studied the impacts of rent control on the market value of properties dating back to the 1980's. Our research has generally concluded that rent control tends to have a negative impact on the value of multi-family real estate. In November 2021, St. Paul voters approved a Rental Stabilization Ordinance for the City of

St. Paul. This Ordinance has created uncertainty for property owners, developers, and potential investors of multi-family real estate in the City of St. Paul. The early impact of the Ordinance has seen developers delay moving forward on several development projects that were actively being planned for development and it has raised many concerns for current owners and investors.

3. This Ordinance has created uncertainty for the marketplace, which investors account for by requiring higher rates of return on the future anticipated income. When the rates of return are increased, this has a negative impact on the market value of the real estate. Further, investors may not be able to realize market value gains that would be commensurate with market appreciation of rental rates. There will be additional risk associated with operating expenses experiencing rates of inflation that can outpace the properties' ability to increase rent due to these rent controls. These issues can force properties to experience diminution in the anticipated net operating income, which leads to a decline in the market value for multi-family assets.

4. The impact of this Ordinance on real estate value is complex and dynamic. Shenehon Company has not had the opportunity to specifically calculate the diminution in value that the Ordinance has had on the St. Paul market or specifically the two apartment properties that are at issue in this case. Before any conclusions can be made on the diminution in market value Shenehon Company requires further analysis on issues such as the following:

- i. Will the rent cap fall behind normal rent growth and what controls are in place for landowners to account for these market changes?

- ii. How will the Ordinance account for increases in operating expenses that could experience stronger inflation than the rent cap can adjust for?
- iii. How will the Ordinance affect the length of time for a transaction as well as the ability to finance debt obligations?
- iv. How will the tenants interest in the property stemming from the Ordinance affect a transfer of value from owners to renters?

I DECLARE UNDER PENALTY OF PERJURY THAT THE FOREGOING IS TRUE AND CORRECT.

Dated: November 28, 2022



Robert Strachota

Executed in Hennepin County, Minnesota